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SPECIAL ECONOMIC, HUMANITARIAN AND DISASTER RELIEF ASSISTANCE

Assistance for the reconstruction and development of Lebanon

Report of the Secretary-General

1. The present report is submitted pursuant to Economic and Social Council resolution 1996/32. During the period under review (1 July 1996 - 30 June 1997), the operating environment for national recovery and development activities became more difficult. This situation was due to the impact of events in southern Lebanon compounded by the effects of the deadlocked regional peace process, which is increasingly put into question. The unsolved regional dimension affects perceptions about long-term stability, which is necessary for private investment to thrive.

2. Notable developments at the domestic level were the installation on 16 October 1996 of a new Parliament for a four-year term, which in turn voted confidence in a new Government on 27 November 1996. The strategic goals of the legislative and executive branches of government remained the same as in the past few years, including at the top among goals the liberation of southern Lebanon and the western Bekaa from foreign occupation and the reintegration of the displaced. For the first time, however, the Government included social issues, including the environment, and administrative reform, among the main areas of priority of its agenda.

3. Economic activity in 1996 was characterized by a marked slowdown, notwithstanding the efforts of the national authorities to modernize financial and economic legislation, to encourage investment in Lebanon and to open international markets to Lebanese exports. The annual growth rate fell to 4 per cent in 1996 (GDP at US$ 13,754 million) compared to 6.5 per cent in 1995; this lesser performance is attributed to the above referred to factors, the effect of restrictive monetary policy and an austerity budget limiting public investment.

4. The policy of exchange rate-based economic stabilization was successfully continued in 1996. However, the key objective of reducing the public deficit in 1996 was not met, 47 per cent actual compared to 38 per cent planned (actual deficit in 1995 was 57 per cent and in 1994 it was 47 per cent). Net total public debt increased to $10.5 billion in 1996, up by 42 per cent - an increase in the same proportion as one year earlier. Most of the increase resulted from the domestic debt component. The net domestic public debt to GDP ratio stood at a high 63 per cent at the end of 1996 (52 per cent at the end of 1995). External debt rose by $574 million in 1996 to $1,856 million (18 per cent of net total public debt).

5. For the year 1997, Parliament adopted on 3 February 1997 an increased austerity budget, severely squeezing public investment, with a planned deficit of 36 per cent. Planned revenues amount to LL 4,100 billion against planned expenditures of LL 6,433 billion. The 1997 budget introduced a new budget classification based on the nature of expenditures and also taking into account the impact of public expenditures on national economy.

6. The economic performance of the first quarter of 1997 provided further evidence of the difficult economic situation, as growth was estimated at a couple of percentage points only. Leading indicators of the real sector were down significantly, particularly in the construction sector, which was in the first half of the 1990s the motor of growth. In the first quarter, the area covered by building permits decreased by 47 per cent and cement supplies by 25 per cent, compared to the same period one year earlier. An important development was the successive important decreases in interest rates, which in the short term (six to nine months) should have an effect on stimulating the economy, particularly the productive sectors. At the same time, commercial banks were no longer required by the Central Bank to mandatory subscription to treasury bills in February 1997 (the requirement was at least 40 per cent of their deposits). Macroeconomic indicators overall continued to be favourable; inflation remained at a low level (10 per cent); and the currency remained stable. The balance of payments was in surplus by $564 million at the end of the first quarter (compared to a deficit of $291 million during the same period last year). Again, the performance of public finance was deceiving in the first quarter as the budget deficit reached 49.6 per cent, a subject of concern. Net total debt increased to $11.4 billion. External debt increased to $1.9 billion (14.5 per cent of GDP). The Government decided in June to establish progressive import taxes on cars, with rates varying from 20 to 200 per cent, in a bid to raise more revenues; other measures are under consideration.

7. Concern about slack growth and mounting social problems led the Government to decide early in March on a new economic orientation, including promotion of investment and elimination of all obstacles to investment by Lebanese and foreigners; protection of agriculture through limiting imports of competing agricultural products; and selection and protection of competitive industries, which have an export potential, which will be supported to ensure increased productivity. The Investment Development Authority of Lebanon stepped up the creation of a number of strategically located industrial zones in different areas of the country. An interest subsidy programme (five percentage points) on loans contracted by private investors and enterprises from commercial banks was also initiated in April (US$ 16 million fund), which is expected to reactivate private sector investment.

8. In the social sectors, reform programmes continued with a view to establishing more effective and efficient health-care and education systems, which will require sustained efforts in the medium term for their effects to be widely felt. This action has received increased support from different donor sources; however, additional and increased development assistance is to be directed towards the basic social services with a view to improving primary and reproductive health care, basic education, skills development and literacy in priority, to at least meet the targets set by recent international conferences. Further provision of social services and social welfare through the Ministry of Social Affairs and its network of integrated social services centres would be required. Support in this connection, both at the central and operational levels, is to be largely increased. Progress with respect to return of displaced persons (limited to 25 per cent at the end of 1996) and their rehabilitation continues to suffer from lack of financial resources, both for rehabilitation and reconstruction of dwellings and of socio-economic infrastructure and activities; international support for this critically important component of the national recovery programme has been wanting. In the second quarter of 1997, attention focused on underserved areas, particularly in north Lebanon and the northern Bekaa, which are generally believed to have a high incidence of poverty - confirming efforts to attract additional financing to bring these areas within the mainstream of development, made through the United Nations Development Programme (UNDP)-supported programme of Integrated Rural Development for Baalbeck-Hermel in recent years. This situation resulted in a government initiative in June 1997 to implement an emergency programme of LL 150 billion for these two areas, primarily directed towards the development of road infrastructure, irrigation and social services infrastructure. To ensure success, however, it is imperative to immediately provide employment opportunities and to generate incomes for the local population; this will require focused action over a medium-term period to relieve the population through communal and municipal local infrastructure works, food-for-work initiatives (particularly for rural infrastructure development), integration of rural women into the local economy through training and related support for small-scale economic activities, provision of ample micro- and small-scale credit at the individual and enterprise levels etc. Such programmes, largely funded through bilateral and international assistance, could be managed by United Nations system organizations (the above-mentioned UNDP-supported programme for the Baalbeck-Hermel area is an example), in cooperation with non-governmental organizations, within the framework of government policy.

9. The issue of illegally imported and dumped toxic waste was finally closed in June 1997 after several shipments were returned to their countries of origin. There have been a number of excellent initiatives by the Ministry of Environment to stop environmental degradation and to start resolving the problems in a number of environmentally sensitive areas, notably exploitation and rehabilitation of quarries, solid waste management and air pollution. However, conclusive results will require firm political commitment, enforcement of norms and of decisions and related environmental capacity development. Increased international assistance would also be useful in this respect.

10. Issues of governance figured prominently among developments during the period under review. Basic surveys and studies for administrative reform were

continued, and action on a number of issues is under active consideration, including the establishment of unified salary scales for the public service and restructuring of the civil service with employment based on qualifications and equal opportunity. The programme of rehabilitation of the public administration, particularly procurement of office equipment, and the introduction of modern office technology and training, continued with progress in implementation somewhat slower than scheduled. It is strongly emphasized that sustained, determined action to streamline and transform the public administration is a conditio sine qua non to bolster economic recovery and reconstruction and development efforts in the medium term. It is thus necessary that planned and committed international assistance for capacity rehabilitation and development and for reform be delivered in a more effective and quicker manner.

11. The planning and implementation of national reconstruction and development have continued during the period under review in accordance with the national objectives and following the strategic options taken by the Government a few years ago: development of basic infrastructure and public services infrastructure; creation and strengthening of legal frameworks, in particular for private sector development; and rehabilitation and development of institutional frameworks.

12. The fourth progress report of the Council for Development and Reconstruction was released in October 1996. The report indicates significant progress on major rehabilitation schemes and reconstruction, in which now more than 20 countries and a score of international organizations participate. In the next phase, more attention will be given to social infrastructure, particularly in the education, health, water supply, waste water, and solid waste sectors, in which it is expected to let contracts of up to $800 million by the end of 1997. As indicated above, plans to modernize the public administration have been started and initial activities will provide ministries and agencies with modern equipment and qualified staff; technical assistance will support the establishment of modern institutional structures and management processes. Of total foreign financing requirements of $8.5 billion during the 1995-2000 period, $3.9 billion had been secured in October 1996, of which $800 million mobilized from capital markets. It is noted that as of June 1997 foreign funding committed amounted to $4.7 billion, of which $1,050 million drawn from capital markets. The latter has proven an efficient means to accelerate implementation of priority projects. Taking into account the country's public finance situation, it is evident that very major efforts will continue to be required during the next years to mobilize foreign financing, particularly soft loans and grants, to meet the plan target. One interesting recent development concerns the intention of the Government to expand public-private partnerships. The Government opted in the second quarter of 1997 to further increase private sector participation in the financing and implementation of recovery activities, particularly major projects including the restructuring and development of coastal areas north of Beirut (Linord), major road infrastructure development etc.

13. The total amount of contracts awarded by the Council for Development and Reconstruction between 1 January 1992 and 30 September 1996 was $3,283 million, of which $1,400 million covered by foreign funding. Completed contracts amounted to $563 million only at the end of September 1996. Just

under $2 billion new contracts were in preparation. It is noted that considerable time is taken by project preparation and procedures for mobilizing and arranging project financing, and particularly by securing approval from Parliament for each project to be implemented through external financing. Strengthening the technical and coordination capacity of line ministries is essential to expand national implementation capacity, including maintaining implementation schedules, while maintaining the high standards and efficiency of the Council for Development and Reconstruction, the central agency entrusted with planning, mobilizing financing for, and overseeing implementation of reconstruction and development activities.

14. It is suggested that to strengthen the planning and implementation of reconstruction programme, projects should be cast in comprehensive, integrated sector or thematic frameworks, putting up-front requirements for improved policy-making and programme formulation, coordination, institutional capacity-building, and human resources development - in addition to physical investment requirements. For each sector/theme, a lead role in support of government could be assigned to a specific donor for management and coordination assistance for the totality of international development cooperation.

15. The scope and volume of United Nations system activities increased by about 25 per cent in 1996 to just under $20 million. UNDP contributed $5.6 million, the World Bank $3.8 million (only grants), the World Health Organization (WHO) $1.8 million, and the World Food Programme (WFP) $1.7 million. This represents a modest contribution, well below 10 per cent of the overall development assistance effort and only a fraction of total public investment which is estimated at more than $1 billion in 1996. The contribution of the United Nations system is important, however, as it is directed to areas of strategic importance and to key components of sustainable and human development. With the exception of $1 million from the International Fund for Agricultural Development (IFAD) (soft loan), the totality of disbursements made by the United Nations system are grants which mainly served for capacity development through technical cooperation projects. There has been increased cooperation with civil society organizations even though mainly through a score of projects of very small amounts, involving mainly local communities. Salient among United Nations system activities during the period under review was support for data development for policy-making and programme development. The national housing and population survey and database, conducted by the Ministry of Social Affairs in cooperation with the United Nations Population Fund (UNFPA), was completed in October 1996. The survey makes available for the first time in more than 50 years data on population and development (3.1 million, excluding Palestinian refugees and temporary foreign workers; average family size 3.7 members; illiteracy rate 13.6). Also the results of an Arab Fund for Agricultural Development (AGFUND)-funded Pan Arab survey on mother and child health, undertaken by the Ministry of Health with support from UNFPA, the United Nations Children's Fund (UNICEF) and WHO, were released in October 1996. A survey on education achievement in tenth grade undertaken by the Education Research and Development Centre in cooperation with the United Nations Educational, Scientific and Cultural Organization (UNESCO) and UNICEF was released in February 1997 (and complements a similar survey of fifth grade students). More basic surveys are under way, mainly with support

from UNDP, including an establishment survey, a labour and manpower survey, a living standards measurement survey, a household survey, and an agricultural census (the latter financed by the World Bank). Data from these surveys will serve a new major initiative, namely to establish a national strategy for increasing social productivity and reducing regional disparities; this work supported by UNDP will be based on defining and mapping poverty, and on establishing a national poverty line or band. This work will also support the ongoing programme on basic social services, which has made progress in terms of capacity development and operational results, through the collaborative efforts of UNFPA, UNICEF, UNESCO, WHO and UNDP.

16. Throughout the period under review, the Government has deployed determined efforts to sensitize donors and private investors to support the reconstruction and development of the country and to mobilize the required resources. The most important initiative was the Friends of Lebanon Conference, organized by the United States of America in support of the process of the reconstruction of Lebanon, according to the Arrangement of 26 April (following the violence in south Lebanon), which took place on 16 December 1996 in Washington D.C. The Conference brought together high-powered delegations from 31 countries and 7 international institutions, which all committed themselves to offer international assistance to Lebanon in support of its efforts. The Friends of Lebanon Conference attempted to raise, within the context of the country's reconstruction programme, $5 billion over a five-year period, mainly as soft loans and donations; 31 projects were presented, covering road construction ($1.25 billion); irrigation, water networks and the rehabilitation of dams and lakes ($1.19 billion); education, particularly vocational training and technical education ($830 million); environment ($880 million); agriculture ($410 million); housing ($150 million); health ($125 million); and, security-related projects ($165 million). The Office of the Prime Minister, the Council for Development and Reconstruction, and the Ministry of Finance invested considerable time and efforts in preparation for the Conference.

17. It is generally considered that the forum was successful, as the international community gave a clear signal to support Lebanon and the reconstruction process. Contributions were announced for more than $1 billion and in addition a number of countries committed themselves to make available resources amounting to $2.2 billion by the year 2000. Aid pledged/committed included: Kuwait ($100 million); the United Arab Emirates ($50 million); France ($200 million for 1997); Saudi Arabia ($14 million); Great Britain ($1.5 million); European Union ($1.5 billion over four years); the World Bank ($1 billion over five years); Belgium ($33 million); the Arab Monetary Fund ($75 million); Canada ($200 million); the United States of America ($20 million); Germany ($7 million); and Norway ($5 million). Japan and the Islamic Bank committed themselves to send delegations to Beirut to identify possible project finance. UNDP participated in the Conference and indicated that, along with other United Nations system organizations, it would maintain and further increase its efforts in support of the reconstruction within the context of the programme frameworks (see below). UNDP also offered support to the Government in conference follow-up and coordination.

18. The follow-up process has engaged the national authorities at the highest level through a number of initiatives towards friendly countries and

international institutions as well as the private sector; these have involved traditional western and Arab donors, but also countries such as Brazil, the Republic of Korea, Malaysia, and Eastern European countries. Bilateral follow-up meetings with donor countries and international institutions have been held to translate the pledges and intentions into financing proposals and agreements; a process which needs to be speeded up, as already pointed out above. Capacity development for project preparation and management as well as negotiation of financing and implementation arrangements would benefit this process in the short to medium term.

19. The World Bank indicated within the context of the Friends of Lebanon Conference that it had approved since 1993 a total of $551 million in favour of Lebanon. The World Bank envisages to increase the annual loan volume to Lebanon to $150 million during the 1998-2000 period and to provide guarantees for an amount of $150 million only. World Bank loan policy towards Lebanon is based on three main sectors, namely, rehabilitation and reconstruction of public institutions (equipment for the administration, management of Electricité du Liban, etc.), environment, and social development (health care, education, vocational training), which correspond with the main priorities defined by the Lebanese Government. The implementation rate, however, has been slow as only $200 million had been disbursed by end December 1996, of which $120 million out of $170 million approved under the Emergency Rehabilitation Programme of 1993. Slow implementation is ascribed to the long procedure for loan utilization, particularly at the level of Parliament. In addition, there is a need for improved management and for qualified personnel in most of the Ministries to enable the implementation of projects, which underscores the interest of the World Bank (and of other donors, including UNDP) in rehabilitating public institutions.

20. On 1 January 1997, UNICEF, UNFPA and UNDP started a new cycle of five-year country programmes. The Minister of Foreign Affairs and the UNICEF Representative signed on 14 January an agreement concerning the UNICEF programme of assistance for the period 1997-2001, amounting to $17.5 million, with focus on primary health care, basic education, and basic social services, particularly for underserved groups and regions. The UNFPA country programme amounting to $7.5 million was approved in March, with special focus on reproductive health, including family planning, and basic data development and advocacy. The UNDP country programme of $25 million was approved by the Executive Board in May, with main areas of focus governance and institution-building, social development and poverty alleviation, and environmental management and sustainable development.

21. The above country programmes address in priority people-centred development issues through assistance through capacity development; the main concern is for social reconstruction, particularly poverty eradication, and governance and environmental management also figured prominently. The areas of concentration of the respective programmes respond to the concerns and priorities expressed in Economic and Social Council resolution 1996/32 of 25 July 1996. The implementation of the programmes as planned requires additional resources, which to an extent the Government of Lebanon has been forthcoming to make available through cost-sharing; a similar effort is required through increased mobilization of resources from bilateral donors and international institutions for United Nations system-supported national

programmes. The latter objective would be facilitated by strengthened linkages among common themes and components of programmes and by increased implementation of activities in a collaborative manner. Among the best examples are the programme components of fiscal reform and administration, basic social services development (primary health care and basic education) and area-based development programmes. The completion of a common Government-United Nations system strategy and the achievement of streamlined collaborative implementation mechanisms are suggested.

22. WHO approved a new biennial programme (1997-1998) of support for Lebanon, amounting to $2.5 million. The United Nations Industrial Development Organization (UNIDO) released in April 1997 its country support strategy for Lebanon, which includes 12 specific areas for cooperation in terms of capacity-building at the policy, institutional and enterprise levels; resources for implementation are to be identified. Other specialized agencies implement projects within the context of regular budgets or regional programmes.

23. WFP closed down its office and operations in Lebanon at the end of December 1996 after achieving its mission in the country. WFP made a considerable contribution to provide food aid to needy persons throughout the war period. Before and after the war, WFP has been active in providing food assistance for developmental purposes, mainly for agricultural development and social development. The United Nations Drug Control Programme also closed down its office in Lebanon (established in 1994 only), maintaining its country operations, which will be supervised henceforth from a regional office to be established in Cairo during the year 1997. The UNDP Country Office services its project operations in the country.